



**Order 99-1-2**  
**Served: January 11, 1999**

**UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.**

Issued by the Department of Transportation  
on the 7th day of January, 1999

Essential Air Service at:

AUGUSTA/WATERVILLE, BAR HARBOR, AND  
ROCKLAND, MAINE, AND RUTLAND,  
VERMONT

**Docket OST 97-2784**

under 49 U.S.C. 41731 *et seq.*

**ORDER TENTATIVELY RESELECTING CARRIER**

**SUMMARY**

By this order we are tentatively reselecting Colgan Air, Inc., to provide subsidized essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period January 1, 1999, through December 31, 2000, at an annual rate of \$2,387,225.

**BACKGROUND**

Colgan Air has provided subsidized jet service to these communities for many years. For the three Maine communities, Order 97-8-5 set a final rate through December 31, 1998, in the amount of \$1,785,960 annually. At Rutland, Order 98-8-21 set a final rate until further Department action in the amount of \$909,439 annually. This order puts the four communities on the same procedural time frame. The proposed rate we are tentatively authorizing in this order reflects the same level of service that Colgan Air is currently providing.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Colgan Air to submit a proposal for continuation of essential air service at the four New England communities.

#### **CARRIER SERVICE PROPOSAL**

In response to our inquiry Colgan Air indicated its desire to continue to serve the four New England communities and submitted and negotiated a renewal proposal for an additional two-year rate term. (See Appendix B to this order for a summary of the subsidy computation for Colgan Air.) The carrier proposes to use 19-seat Beech 1900 aircraft and serve all four communities to the Boston hub, with weekly frequencies as follows: Augusta/Waterville, 12 nonstop and 12 one-stop round trips; Bar Harbor, 12 nonstop and 12 one-stop round trips; Rockland: 18 nonstop and 6 one-stop round trips; and Rutland, 24 nonstop round trips. Based on informal rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$2,387,225 has been agreed upon for each year of the new rate term.

#### **TENTATIVE RESELECTION**

We will tentatively reselect Colgan Air to provide essential air service at the four communities as detailed in Appendix C, for an additional two-year period through December 30, 2000, for an annual subsidy of \$2,387,225. Colgan Air has provided reliable service at the communities, and the rate appears reasonable for the level of service provided. Traffic has grown at the communities since 1997 in response to Colgan's reliable service and the communities remain supportive of Colgan's service.

#### **OBJECTIONS OR PROPOSALS**

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

Essential air service for the three Maine communities requires a minimum of two round trips a day to Boston, with nonstop service required at Augusta/Waterville and one-stop service permitted at Bar Harbor and Rockland. At Rutland, essential air service requires a minimum of two round trips a day to either Boston or New York City with no more than one intermediate stop.<sup>1</sup>

As a general matter, we request proposals that would meet the essential air service requirements of the communities. We will entertain proposals contemplating alternative service, especially if they would reduce required levels of subsidy and have community support.

#### **SERVICE HISTORY AND TRAFFIC DATA**

Colgan Air has served these communities for a number of years. Appendix D shows traffic data for each community for the last several years.

#### **PROCEDURES FOR FILING PROPOSALS**

For interested air carriers that are not familiar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an

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<sup>1</sup> Essential air service for Augusta/Waterville was set by Order 84-7-76; for Bar Harbor and Rockland by Order 94-8-26; and for Rutland by Order 84-2-89.

evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service.<sup>2</sup>

#### COMMUNITY AND STATE COMMENTS

If we receive competing proposals the communities and State are welcome to submit comments on the proposals at any time.<sup>3</sup> Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.<sup>4</sup>

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<sup>2</sup> Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

<sup>3</sup> Civic parties should file an original and five copies of their comments in Docket OST-97-2784. Comments should be addressed to: Documentary Services Division, Docket Section, SVC 124.1, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

<sup>4</sup> In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

#### **OTHER CARRIER REQUIREMENTS**

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.<sup>5</sup> Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

#### **CARRIER FITNESS**

49 U.S.C. 41738 requires that we find a carrier fit, willing, and able to provide service before we pay it compensation for essential air service. In that regard, Colgan Air has operated successfully for many years, and no information has come to our attention that would lead us to question the carrier's fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Colgan Air remains fit. Therefore, we conclude that the carrier remains fit to conduct the operations proposed here.

This order is issued under authority delegated in 49 CFR 1.56a(f).

#### **ACCORDINGLY,**

1. The Department tentatively reselects Colgan Air, Inc., to provide essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period from January 1, 1999, through December 31, 2000;

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<sup>5</sup> The regulations applicable to each of these areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, Implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants) implementing the Drug-Free Workplace Act of 1988; (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs for the Department of Transportation--Effectuation of Title VI of the Civic Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the basis for Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

2. The Department tentatively sets the final rate of compensation for Colgan Air, Inc., for the provision of essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period from January 1, 1999, through December 31, 2000, at \$2,387,225 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$333.76;<sup>6</sup>

3. In the event objections or competing proposals are received, the rate in ordering paragraph (2) above will be effective as a final rate from January 1, 1999, until further Department action;

4. This rate is in lieu of, and not in addition to that set by Order 98-8-21;

5. We find that Colgan Air, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont;

6. We direct Colgan Air, Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

7. This docket will remain open until further order of the Department; and

8. We will serve a copy of this order on the Mayors and airport managers Augusta/Waterville, Bar Harbor and Rockland, Maine, and Rutland, Vermont, the Maine and Vermont Departments of Transportation, and Colgan Air, Inc., and the carriers listed in Appendix E.

By:

**Charles A. Hunnicutt**  
Assistant Secretary for Aviation  
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web  
[http://dms.dot.gov/reports/reports\\_aviation.asp](http://dms.dot.gov/reports/reports_aviation.asp)*

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<sup>6</sup> See Appendix C for calculation.

Appendix B

Colgan Air, Inc., d/b/a Continental Connection, Essential Air Service for Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont

Passengers			
Bar Harbor 1/	\$96.37	16,553	\$1,595,213
Augusta/Waterville 2/	\$88.98	9,020	\$802,600
Rockland 1/	\$92.17	12,203	\$1,124,751
Rutland 2/	\$70.76	<u>9,702</u>	<u>\$686,514</u>
		47,478	\$4,209,078
<u>Other Revenue @ .5%</u>			<u>\$21,045</u>
Total Revenue			\$4,230,123
Flight Hours 3/			6,112
Flying Operations @ \$108.49/hr.			\$663,091
Dispatch @ \$18.52/hr.			\$113,194
Fuel @ \$131.18/hr.			\$801,772
Maintenance @ \$213.05/hr.			\$1,302,162
Insurance @ \$37.54/hr.			\$229,444
<u>Aircraft Ownership @ \$186.10/hr.</u>			<u>\$1,137,443</u>
Total Direct Expenses			\$4,247,106
Pax. Related @ \$8.59/pax.			\$407,836
Rev. Related @ 5.2% of pax. rev.			\$218,872
Station			\$738,150
<u>Adm. Expense @ 12.3%</u>			<u>\$690,272</u>
Total Indirects			\$2,055,130
Total Operating Expense			\$6,302,236
<u>Return @ 5%</u>			<u>\$315,112</u>
Total Economic Cost			\$6,617,348
Subsidy @ 97% Completion			\$2,387,225

1/67% applied to total third quarter traffic to reflect Colgan's service exceeding the subsidized level, with a 5% growth applied to that figure and the remaining three quarters.

2/10% growth applied to the YE 9/30/98.

3/AUG-BOS, 7 flts./week x 45 min.	=	315
BOS-BHB-BOS, 6 flts./week x (60+ 60) min.	=	720
BOS-RKD-BHB-RKD-BOS, 5 flts./wk x (45+ 20+ 20+ 45)	=	650
BOS-RKD-AUG-BOS, 6 flts./week x (45+ 15+ 45)min.	=	630
BOS-RKD--AUG, 7 flts./week x (45+ 15)min.	=	420
BHB-RKD-BOS, 7 flts./week x (20+ 45)min.	=	455
BOS-AUG-RKD-BOS, 6 flts./week x (45+ 15+ 45)min.	=	630
BOS-AUG-BOS, 5 flts./week x (45+ 45)min.	=	450
BOS-BHB-BOS, 6 flts./week x (60+ 60)min.	=	720
BOS-BHB, 6 flts./week x 60 min.	=	360
RUT-BOS, 48 flts./week x 40 min.	=	<u>1,920</u>
		7,270

7,270 min. x 52 weeks x .97 completion divided by 60 = 6,112 flt. hours.

**Colgan Air, Inc., Essential Air Service to be Provided to Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont Docket OST-97-2784**

Effective Period: January 1, 1999, through December 31, 2000 <sup>1</sup>

Scheduled Service: Augusta/Waterville: 12 nonstop and 12 one-stop round trips each week to Boston; Bar Harbor: 12 nonstop and 12 one-stop round trips each week to Boston; Rockland: 18 nonstop and 6 one-stop round trips each week to Boston; Rutland: 24 nonstop round trips each week to Boston

Aircraft: Beech 1900s.

Rate per Boston Departure/Arrival <sup>2</sup> \$328.68

Weekly Ceiling: \$15,776.64 <sup>3</sup>

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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<sup>1</sup> Because traffic at these communities is highly seasonal markets, for payout purposes we will make payments to Colgan on the basis of the off-peak period only. See footnotes two and three below.

<sup>2</sup> Annual compensation of \$2,387,225 divided by the estimated annual completed departures and arrivals at a 97 percent completion factor at each community:  
48 departures/arrivals x 39 weeks x .97 x 4 communities = 7,263 total.

<sup>3</sup> Subsidy rate per arrival/departure at Boston of \$328.68 multiplied by 48 subsidy-eligible arrivals and departures each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

Historical O&D Traffic at Augusta, Bar Harbor, and Rockland, Maine,  
and Rutland, Vermont

	<u>Augusta</u>	<u>Bar Harbor</u>	<u>Rockland</u>	<u>Rutland</u>
CY 1992	14,784	9,037	12,275	3,152
CY 1993	10,564	9,813	6,113	2,151
CY 1994	4,971	10,522	8,046	6,261
CY 1995	9,997	13,126	9,460	7,403
CY 1996	6,866	14,829	9,656	6,215
CY 1997	6,035	16,722	12,260	4,794
YE 9/30/98	7,750	17,133	12,869	8,145

Note: Passenger counts in 1996 and 1997 were affected when the Department reduced required service to ten round trips a week. Colgan was able to operate some service above this level on its own initiative, especially at Bar Harbor.